RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Apr. 21, 1999 **LETTER 1276**

THE PICTURE: The sheer mass of news, hype, advertising, facts, rumors, guesses, opinions, coming out today regarding the stock market is enough to confuse your average genius. For this reason, it's increasingly important to keep our eyes **glued to what the market itself is telling us.** It's **market action** that I'm interested in. Nobody on the face of the earth is capable of absorbing and analyzing and making sense out of the flood of news and talk that is coming out each hour of every day (and with the Internet, the news comes out every minute of the day and night). So it's more important then ever to keep our eyes on the ball, the ball being the market itself. Old timers used to say, "It's not the news that's important, it's the market's **reaction to the news."**

This is a particularly difficult Letter to write. The reason is the wild, erratic, really confusing market action. For instance, on April 14, on record volume, the Nasdaq, after surging up into record territory, dropped precipitously at the close. On the same day, the Dow, after being up over 140 points, sank to being up only 16. By the close the Utility Average dropped a big 6 points. When it was all over, my PTI was up only one point.

Question: Could we be seeing some basic changes? Last week, for the first time, the A-D ratio began to show signs of life. We had a few decent upside days in breadth, not huge, but at least UP. On top of that, the high/lows turned around, and we started seeing more daily new highs than new lows.

Adding to the confusion, following a long collapse in the A-D ratio, normally the turn, the REAL turn, is signaled by one or more days of **big breadth reversals to the upside,** and I mean days of **ten-to-one advances over declines. We haven't seen anything even close to that yet,** which I must say is surprising. Sometimes, what the market **does not do** tells us as much as what the market does do.

Now let's turn to my PTI. Drawing a declining trendline starting from the year's high, we see that the PTI has been holding below that bearish trendline. But last week, the PTI pushed ABOVE that trendline. True, the PTI is still below its 89-day moving average, which means that the PTI is still in its bear mode. But the PTI is now moving closer to its moving average. If it closes above the moving average, it will mean that "something" within the market's internals is changing -- and changing for the better.

Question: Russell, what do you make of the S&P "dragging its feet" here while the Dow and the Transports move higher?

Answer: I think the fund managers must think that the tech stocks have been pushed about as far as they can sanely be pushed. So what's left? It's the basic material and cyclical stocks, the kind of stocks that make up the Dow and the Transports. So I think what we saw last week and maybe what we'll be seeing for a while is a switch or transfer away from the tech and even the Internet stocks back to the basic cyclical stocks, many of which are in the Dow.

Also, money is suddenly moving into the secondary shares. How do we know? The Russell 2000 (composed of second tier stocks) has suddenly spurted.

Apr. 9 DJIA 10173.84; PTI 5305; A-D Ratio +2.43
Apr. 16 DJIA 10493.89; PTI 5318; A-D Ratio +3.12
Dow Yield: 1.51%; Dow Price/Earnings: 26.1
Dow 144-day MA: 9335; Dow 34-day MA: 9978
Dow Times Book Value: 6.58; PTI 89-day MA: 5323
Percentage of Undervalued Blue-chips: 7%
Gold 34-day MA: 287

Question: Russell, what would you say if the **Transports** (which spurted higher last week) advanced to a new high, thereby confirming the Dow?

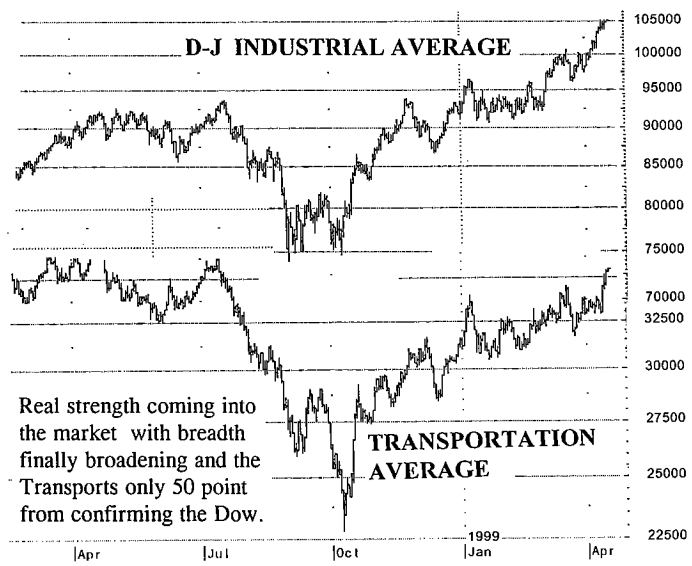
Answer: The Transportation Average topped out on April 16, 1998, at 3686.02. That high was recorded over a year ago, and the **longer the time lag for a confirmation, the less valid a final confirmation.** Therefore, if the Transports should finally advance above 3686.02, I would not be particularly impressed. Actually, a final very belated confirmation might even signal the end of the entire rise in the big-cap averages. In other words, it could be the "final gasp."

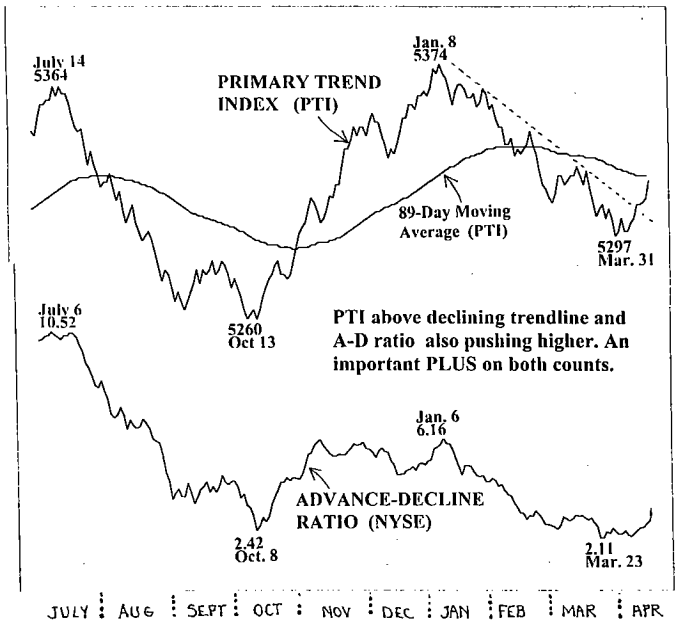
Question: What if the advance-decline ratio starts to move up in gear with the big averages? If that happens, wouldn't that be bullish (although I admit it would be very unusual)?

Answer: Unusual? It would be almost unprecedented, and, of course, it still hasn't happened. In other words, the A-D ratio (which traces the trend of the great majority of stocks) hasn't yet recorded a major move to the upside. So far, in fact, as this is written, the A-D ratio has not even broken out of its two-month trading range.

Conclusion: This is the most difficult, most atypical market that I think I've ever dealt with. But I want to be as unbiased and as realistic as I'm able. On a valuation basis, this market is ridiculous. As far as price action is concerned, the market is doing things I haven't seen before, but we live and learn.

Liquidity: One thing very few analysts will disagree with is that this has been a **liquidity-driven market.** Week after week the broad money supply has surged, often adding as much as $10-15 billion in a single **week.** Actually, M-3, the broad measure of





money supply, has expanded by a 11.1% rate over the last six months. It's well to remember that ultimately, everything in the market boils down to one phenomenon -- **supply and demand.** Business can be awful and corporate profits can be dismal, but if demand for stocks is greater than supply, stocks will push higher. Conversely, if business is terrific and corporate profits are surging, yet supply overpowers demand, stocks will head down.

More on the Primary Trend Index: I believe that my PTI is one of the best and most basic market indicators of supply and demand. Remember, valuations, breadth, ratios, sentiment, interest rates -- all these are background indicators -- **but ultimately what moves the stock market is supply and demand.** As for the PTI, it hit a high of 5374 on January 8, and it continued down to a low of 5297 on March 23. Ever since 1971, when I first developed the PTI, I have used the 89-day moving average (MA) as the dividing line between bullish and bearish.

The PTI broke below the 89-day moving average on February 12. It has held below its moving average ever since. If the PTI breaks above its MA I will revise my stance, at least my short-term stance, on the trend of the market. Until then, I believe the **safest** path is to abide by the action of the PTI. I will say this -- in the 28 years that I have monitored the PTI I have never seen the major averages move against it as they have since January. But I should add that seldom have the major averages diverged. so drastically with the majority of stocks as measured by the advance-decline ratio and the unweighted Value Line Composite.

Breadth: One extraordinary item in the current market is that since February 8 the advance-decline ratio has been **locked within a one point range.** Thus, despite all the action in the big-cap averages, the great majority of stocks, as measured by the A-D ratio, have gone nowhere.

Conclusion: Valuations (see next paragraph) are now so far into never-never land that nothing coming up in this market would surprise me. The stock market is in the hands of a wildly-bullish public that is oblivious of history and valuations plus a crowd of highly-competitive money managers and hedgers who are dealing with "other people's money." This combination has driven stocks up to the point where (with literally no dividends) **all returns must depend on capital gains.** This represents a massive bet on an almost never-ending rise in stock prices. It's a bet that few veteran investors would be willing to assume.

Dividends and Profits: The following is from Steve Leuthold's brilliant publication, *Perception for the Professionals* [(612)332-2202]. "In the fourth quarter of 1998, real GDP rose at a 6% rate, but aggregate corporate profits, as reported by the Commerce Dept., fell 1%. GDP real growth for all of 1998 was up 5.5%, but reported profits were down 2.2% for the year. The S&P 500 suffered the same fate, with 1998 reported earnings down 5% from the preceding year (operating earnings were down about 2%). This was significantly poorer earnings results than most of Wall Street expected. For the S&P 500, this marked the third year with little or no growth in reported earnings . . . From year-end 1996 through first quarter 1999, the S&P has soared 70% with reported earnings **declining** 3% . . . 1999 earnings estimate $36.64, down 3% from 1998 (Leuthold Group estimate)."

Russell Comment: What's going on? Answer: Wild enthusiasm for the stock market with price/earning ratios rising to record highs despite declining profits. As a result, the P/E on the S&P 500 has spurted to a never-before-seen **35.4.** And with S&P dividends of $16.45, "investors" are now paying an unbelievable 81 dollars for every dollar of S&P dividends.

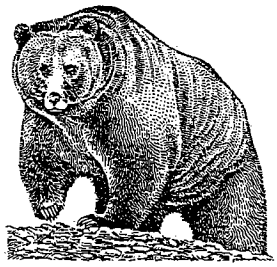
Dividends: When you talk about **dividends,** you're not talking about some accountant's statement of profits, you're talking about **real money.** A company doesn't raise its dividend unless it believes it can **hold** that cash payout (the last thing a company wants is to announce a lowered dividend). Thus, the **trend of dividends, historically, tends to be a leading indicator of corporate earnings**. S&P reported a 13% drop in dividend boosts in January-March, down to 575 from 659 in the comparable 1998 period. The number of corporations declaring extra dividends dropped from 92 a year earlier to 78. So far, there have been 46 payout decreases or eliminated dividends -- up from 35 last year.

Said Joseph Tigue, managing editor of S&P's weekly *The Outlook,* "The weak dividend picture reflects declining earnings expectations. Companies are reluctant to boost dividends in the face of relatively narrow profit margins." So there you have it, declining earnings, a negative dividend picture -- yet higher equity prices. Can you imagine what profits would look like if the volume of sales were to decline, due to a recession? This is the reason why the Fed is so relentlessly pumping up the money supply -- it's all in an effort to re-inflate, and to hold off any possibility of recession.

The G-Man: Question: Let's try to sneak into Fed chief Greenspan's brain. Greenspan wants to prevent two phenomena: **(1)** an economic recession, and **(2)** a rise in inflation. As long as neither of these appear, he's happy (well, let's say, he's nervously content). But Greenspan must have **one worry. It's the stock market.** We know Greenspan was worried about the stock market back in December 1996 when the "exuberant" Dow was 6400. What must he think now? Greenspan has to be worried about the possibility of either a severe stock market decline or even a market crash.

But nobody (including Greenspan, of course) envisioned the Dow climbing to 10,000. At this point, Greenspan doesn't want to supply the pin that pricks the market balloon. Yeah, sure, in retrospect, the Fed should have raised stock market margins three or four years ago. But that might have been too obvious, too blatant, too frightening for market bulls to swallow. What about the money supply? Nobody watches the money supply any longer. Maybe the best way to "slow" this market would be to put a lid on the money supply. Maybe that would be the "safest" way to put the brakes on this market. If the Fed could only avoid that damn pin.

INVESTMENT POSITION: The bear remains in the box. And valuations remain "in outer space." But it's important to be totally cold and clinical where the stock market is concerned. There's no question but recently the breadth of the market has been improving. And last week we saw daily new highs pushing above daily new lows. And maybe the big improvement was in the Transport action.



Nevertheless, I am opting for extreme safety here, and that means government paper of around two years or less. Now consider this -- if you're on the street, and a riot breaks out at the end of the block, do you join in on the fighting or do you stand aside and (if you're a curious type) just watch the show? Honestly, there's nothing wrong with staying out of a wild, dangerous situation. I apply that same reasoning to today's market. I'm staying with T-bills.

NOTES & QUOTES: On my www.dowtheoryletters.com web site I've added what I believe is a most interesting history of Dow Theory. This is a history that you're not going to see anywhere else, and I hope all my subscribers will read it. In this piece I discuss, Dow, Hamilton, Rhea, and Schaefer, and what each has added to Dow Theory. Just double click on the words "Dow Theory History" on the home/main page to bring the piece up.

I've received dozens of "thank you" notes and calls from subscribers regarding my new daily web site. Of course, I thank all of you, and I'm happy to receive your comments. But now I want to address the thousands of my subscribers who are **still not on the net** and who are therefore not receiving my daily stock market comments. I can't tell you how important it is for you to get on the net and to read those daily comments. I feel it is particularly important **at this time,** since the stock market is so volatile and literally anything can be expected. Besides, when you click into a daily rundown on the market, I think you get a **better feel** for the whole picture. At any rate, computers are now cheap, it's easy to get on the net, my web site is free (to paid full-term subscribers), and if you're not on the net, you're really missing a great modern revolution in learning and communication. Do it, do it, do it -- you'll be glad you did.

By the way, when you click on to my web site, **be sure you update it each time** by hitting the "Refresh" button for Internet Explorer or "Reload" on Netscape and AOL. Also, I **often add items later in the afternoon or at night,** so you might want to hit the site again toward evening (you'll have to refresh/reload to see if I have updated a piece).

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Speaking of things to do, at the bottom of this page I include a piece on chelation from *Health and Healing*, the newsletter put out by Dr. Julian Whitaker [(800)539-8219]. I've received and have on file dozens of letters from subscribers who have undergone chelation treatments and have benefited from them. Nevertheless, the war against chelation goes on and on, joined most recently by the FTC. But eventually the truth will out, despite government agencies and medical authorities. Nothing is stronger than the truth. Note: Famed Scripps Hospital here in La Jolla has started a program to monitor the effectiveness of many alternative medicine techniques, including chelation. Billions of dollars are now being spent on alternative medicine, thereby forcing the orthodox medical fraternity to start looking into this field. Check www.chelation.com for more info.

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Michael Goldstein of Wall Street's Sanford C. Bernstein & Co. states that the current market "is the most momentum-driven market in 50 years, only rivaled by the rush towards oil stocks during the late 1970s oil crisis." He adds, "Investors have bought winners and sold losers at a virtually unprecedented rate."

On top of that, the market has become progressively narrower. For instance, on March 29 (the first day when the Dow closed above 10,000) only four of the 30 Dow stocks hit new highs - Allied-Signal, Johnson & Johnson, Proctor & Gamble and Wal-Mart.

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The market has been so narrow that it has irritated the stock-buying American public. According to the Investment Company Institute, net new sales of equity mutual funds in February 1999 were $5.2 billion, down from $13.9 billion in January. In February of 1998, the funds attracted a net new $21.9 billion. The problem: Investors were aggravated by the fact that 90% of their mutual funds were unable to keep up with the S&P. The result: An increasing number of investors were funneling their money into the index funds. Donaldson, Lufkin & Jenrette reports that last year, 29% of all money flowing into equity mutual funds were into index funds, and most of that went into S&P 500 index funds. **Russell Comment:** The massive amounts of money going into index funds means that those running the index funds had to buy S&P futures or the underlying stocks. Since the S&P 500 is literally controlled by 25 big-cap stocks, index fund buying continued to drive up -- not the broad market -- but the S&P and the Dow (the 30 Dow Industrial stocks are all in the S&P 500).

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People are wondering whether golden parachutes represent protection of just payoffs. For instance, the CEO with the golden parachute may figure, "Heck, let 'em take over my company. If they do, I'll be left with a bloody fortune." A few parachutes are as follows: David Coulter of BankAmerica -- $30 million; Leonard Abramson of US Healthcare -- $35 million; Paul Hazen of Wells Fargo -- $50 million; Frank Biondi Jr. of Seagram -- $15 million. What if someone wants to take over Dow Theory Letters? Ah, they can't, I own all the stock, and I do all the writing. The only parachute I ever had wasn't golden, and I gave it back to the Air Force in 1945.

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Hoping to cash in on investors' voracious appetite for brokerage stocks, **Goldman Sachs** has upped the price of its IPO to $45 to $50 from $40 to $45. Goldman will be selling 14.8% of the firm

Clean Out Your Arteries With Chelation

EDTA chelation is an intravenous therapy that involves the slow infusion of EDTA, a synthetic amino acid, which removes excess calcium, iron and copper, as well as toxic heavy metals, from the bloodstream. It protects and heals the arteries and improves circulation in a number of ways. It acts as an antioxidant, protecting the arterial walls from free radical damage. It also reduces calcium deposits that contribute to hardening of the arteries and replaces calcium with magnesium, which helps dilate arteries and improve blood flow. The specific mechanism of benefit is not known, but an analysis of 19 studies involving 22,765 patients who underwent EDTA chelation demonstrated that 87% benefited from the therapy. Chelation must be done in a doctor's office, and a complete course consists of 20 to 30 three-hour sessions. For a referral to a physician in your area who performs chelation, call the American College for Advancement in Medicine (800/532-3688).

or 69 million shares. The top three officers of Goldman will be receiving roughly $700 million between them. Not bad for a trio of regular Wall Street guys.

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Sign of the times. This appeared last week. Of course, the guru turns out to be a professor, not a market man. But the fact that anyone even pays attention to this kind of nonsense gives you some idea of where we are in the cycle.

Soothsayer of Dow 10,000 sees 120,000 in 2025

Twenty-five years ago, Roger Ibbotson and partner Rex Sinquefield correctly predicted the Dow would reach 10,000 in 1999. Ibbotson, a Yale University finance professor, is now forecasting large-capitalization stocks will return an annualized 11.6% over the next 25 years, resulting in a Dow 120,000 mark in 2025. Pensions & Investments magazine says that's a slower growth rate than the previous 25 years. Ibbotson also forecasts small-cap stocks will grow an annualized 10.7%, long-term government bonds 4.7% and 90-day Treasury bills 4.5%.

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The cover of the latest issue of widely-read *Money* magazine is almost embarrassing with its greedy "come on." The cover runs like this: "Tech Stocks, Everyone's Getting Rich! Here's how to get *your* share." The cover pictures a sporty looking couple hugging each other (obviously they have just become rich). Below is the story of one guy who did it without *Money* magazine.

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The Internet mania has produced a gaggle of instant millionaires and billionaires. Take an item from last week. Craig Winn started Value America in 1996. The company sells brand-name products such as computers, diamond rings, laundry soap, at low prices. The company had expected the stock to sell at around 20, but on the Nasdaq it closed the first day at 55. There are 43.4 million shares outstanding, of which the 44-year-old Winn owns about 15.2 million shares. So on the mark-up, Winn is immediately worth over $800 million dollars. And his Internet company is worth $2.3 billion, based on market valuation. How's that for a four-year-old business in a new medium that is operating in an extremely competitive area? Master investor Warren Buffett says that when he buys a stock he thinks in terms of "what is the whole company worth" and would he want to own the company. OK, would you want to own Value America for $2.3 billion? I wouldn't.

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What's happening, I think, is that these net stocks (IPOs) come out -- then hedge and mutual funds and speculators jump in for the ride, thereby boosting the new issue to absurd prices. The funds are, of course, playing with "other people's money," and, in effect, they're shooting craps in the market. It's as if I gave you $100,000 and said, "Go to Las Vegas and see what you can do." But that's what's happening here in 1999. It's fun, it's now, it's greed, it's a product of massive liquidity.

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One of the partners in my wife's law firm (Brobeck, Phleger & Harrison, LLP) has just left to go with NetZero. Now get this - NetZero (a private company) offers FREE access to the Internet. This company is the leader in providing free access and e-mail, and it's the fastest growing internet provider ever. NetZero says, "Take the plunge and flush away that $250 per year in wasted Internet fees. Click here and download our software now." **Russell Question:** Who needs AOL or any outfit that charges you for getting on the net? Things are getting more and more competitive, and will anyone really make a lot of money on the net? They say a lot of it will come from advertising. I guess.

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Here's a cute one. It's actually a mistake for anyone to talk about January 1, 2000. Reason, the first year A.D. began not in the year zero (there never was a zero year) but in the year one. Add one to 2000 and you get 2001. Next year should be 2001, not 2000. Here's another one to ponder: A lot of mystics believe the current year is a bad-omen year. Why? Because if you turn 1999 upside down you get 6661, and 666 is Satan's home number, the sign of the devil. It's been a devil of a difficult market, I know that.

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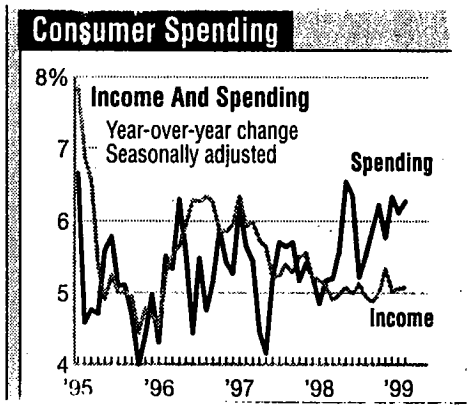
This amazing chart is from *Investor's Business Daily*. I study this chart and ask myself, "How long can this go on?" I guess the answer is, "As long as they can run up their debt."



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Subscribers keep asking me about Y2K. From all I can gather, most of the large US companies and agencies will be OK. The trouble will come from the smaller companies and from overseas outfits. It seems that about 30% of smaller US companies are still not Y2K compliant. Nobody's sure what the situation is overseas, but it is surely a lot worse than the situation in the US.

Trade & Investment Opportunities

Global Commerce

The clock is ticking . . .

Global firms still not ready to pronounce Y2K bug dead

A consultant believes 40% of companies worldwide will suffer, but that Asia will be the hardest-hit region

Asian Y2K scorecard

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A fascinating question: Can anyone predict anything? Probably the most famous seer of modern times was Jean Dixon, the astrological darling of the tabloids. Jean correctly predicted President Kennedy's assassination and she also warned his brother, Robert, of danger. Jean also predicted that Martin Luther King Jr. would be murdered. In her 1969 book, "My Life in Prophesies," Dixon predicted (oops) that by 1970 Castro would be losing power and would be kicked out of Cuba. She claimed Vice President Spiro Agnew would have a prosperous career. She predicted that America would experience food shortages after 1979, mainly because the nation had ignored agriculture. And she predicted that in the mid-1980s a comet would hit the earth, setting off tidal waves and horrendous earthquakes. Mmmm, I guess she should have quit while she was ahead.

But seriously, is there any way of accurately predicting what the stock market will do? Predict? No way that I know of, but there are reasonable **probabilities.** Probabilities are based pretty much on case histories. If the market did this on many occasions, it will probably do that. If one average doesn't confirm the other, this is probably what will happen. When will it happen? Ah, that's the catch -- maybe in a week, a month, maybe in a year, or maybe never.

There is one observation (let's call it a probability) that has **always worked**, although the timing is hazy. **It's based on**

human nature, and Charles Dow observed it, as did many others. It runs like this -- the one phenomenon you can count on in the markets is that they will **change.** What kind of change? At one end of the spectrum investors become **too gloomy.** At that end of the spectrum the general opinion will be that things are so bad that they will never get better, the markets are finished, and capitalism, as we know it, is dead. Then the market turns up as conditions improve. And in time people will become **too optimistic.** At that point it will be widely-believed that this is a new era and all the old negatives, all the old problems, are now understood and probably eliminated. Thus, the nation will never again face "the old bad times."

So this is the one surest probability. It's that the broad swings from abject pessimism to wild optimism and back again -- have occurred in the markets throughout history -- and I believe they always will. But is this a prediction? Not really, it's simply a timeless observation of how human nature works. But, of course, at the extremities no one believes it.

Why is it so hard to believe? Even the Bible talks about "the seven lean years and the seven fat years." Here's a quote from another believer. *"There is one important caveat to the notion that we live in a new economy, and that is human psychology . . . The same enthusiasms and fears that gripped our forebears are, in every way, visible in the generations now actively participating in the American economy . . . Judging from the way prices behave in today's markets compared with those of a century ago, one is hard pressed to find significant differences . . . As in the past, our advanced economy is primarily driven by how human psychology molds the value system that drives a competitive market economy. And that process is inextricably linked to human nature, which appears essentially as immutable and, thus, anchors the future to the past."* OK, who is the rebel who wrote the above? Why it was no other than our own Federal Reserve chief, Alan Greenspan.

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Remember the op-ed piece that appeared a few weeks ago talking about Dow 36,000? My first reaction was that the piece was a satire. No, the writers were serious. The following by Robert Kuttner is from his article in the April 12 *Business Week.* *"Among their other odd side effects, stock market bubbles produce effervescent prophets of permanent prosperity. Among the most inventive are James Glassman and Kevin Hassett in their forthcoming book, "Dow 36,000." Their notion is that the risk premium of stocks relative to bonds is irrational and logically it should narrow to zero. For the real long-term yield on stocks to equal that on government bonds, they calculate, the P/E ratio would need to quadruple to about 100 -- which would put the Dow around 36,000, 'tomorrow, not 10 or 20 years from now.' But surely there is a good reason for that risk premium. Stocks are riskier than bonds. Have we forgotten even that? . . . The permanent-prosperity crowd also points to the optimism of individual investors as a positive indicator. But this should be less than reassuring to the small fry. Historically, it's the little fish who get swamped when the tide turns."*

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Here's a study in probabilities or maybe we should call it cause and effect. The relationship between economic good times and the effect on presidential elections can be reduced to a simple formula. **If there's a recession fewer than two years before a presidential election,** the incumbent party can say "bye-bye" to the White House. Over the past 25 years, it has predicted every presidential election. Here's the record: **1972** -- recession 2 years prior and the incumbent party wins. **1976** -- recession 20 months prior and incumbent party loses. **1980** -- recession 4 months prior and the incumbent party loses. **1984** -- recession 2 years prior and incumbent party wins. **1988** -- recession 6 years prior and incumbent party wins. **1992** -- recession 20 months prior and incumbent party loses. **1996** -- recession 5 years prior and incumbent party wins. **2000** -- ? In fact, you can go back more than 40 years and this "formula" works with the single exception of 1968, when George Wallace split the Democratic party, taking 13% of core Dem votes, even though the economy was 7 years into recovery.

So what does it tell us now? It means that Al Gore better pray for no recession. Al also better pray that Y2K does not turn out to be a disaster which sets off a recession, because if it does the public will blame Clinton and the Dems for not properly addressing (they've actually played down) the Y2K problem. Observations: Clinton's main job now seems to be publicity man for Al's hoped-for presidency. Al Gore may have a wooden personality, but he sure can raise cash. So far, he's raised $55 million for his presidential campaign. And, these days, money wins elections.

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I read 12 newspapers every day. The reason is that often only one paper will carry an item that I find either fascinating or critical to my stock market studies. I'm often asked what newspapers I read. I read the *WSJ, NY Times, LA Times, Christian Science Monitor, Investor's Business Daily,* among others. There are two papers that I would not be without, they are the **Financial Times** [(800)628-8088] and the **International Herald Tribune** [(800)882-2884]. These two provide a mass of international information that you simply don't get in any other newspaper. Each also carries many interesting and varied articles that I find invaluable.

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The Internet: The money going into net stocks has been enormous. The rise of net stock values has exploded into the hundreds of billions. Most of the net stocks provide information. In the meantime, I noted this article which appeared in the April 6 *Christian Science Monitor.* Manufacturing profits fell in the fourth quarter to a **three-year low.** So what's happening? The profits of manufacturers are sinking while the total value of the net stocks surges on and on.

Red-hot US economy turns pink

■ Shrinking profits caused manufacturers to lay off the most workers in a decade.

By James L. Tyson
Staff writer of The Christian Science Monitor

WARSAW, VA. - Despite one of the

Now I know that ultimately a company either produces profits or, in time, the stock is history. Yet few of the net stocks are producing profits; most are producing losses. And what about the future -- if manufacturing profits in the US are declining, can the exchange of information over the net make the difference? How about my own situation? How much do I buy over the net? Well, I buy a few CDs and I buy a few books, all at a big discount. Meanwhile, I receive a pile of information via the net, for which I pay nothing. And I won't pay for net information -- there's a ton of it free (and more all the time), so why should I pay for information? In fact, I've dropped all my chart books, because I get all the charts I want for nothing, free, on the net.

Of course, there's going to be a lot of advertising on the net. And yes, there will be billions of items sold on the net. But those items will be sold on the net instead of being sold in stores. That could be pretty much a zero-sum game. And much of the merchandise sold on the net will be sold **at a discount.** So the question I ask is -- how much in the way of actual profits will be generated by the net? Darned if I know. The price of net stocks is now in the stratosphere. People are acting as if the Internet is the biggest potential profit-producer of all time. Will it be? I'm just not convinced. And is the exchange of information tantamount to actually producing something like cars or houses? I have to wonder.

I know many highly intelligent people are saying that the Internet is a revolution, that it's comparable to the invention of the wheel. Look, I make a living selling my opinions, my analyses and information. In other words, I appreciate information. But I continue to wonder about the profit-producing capabilities of the net. And even if the net produces big profits, will the net companies produce profits big enough to justify the huge prices that investors are paying for these companies? I have my doubts.

Here's what I see happening. A guy comes out with an idea for an information web site; next; he forms a company with a .com in its title. He finds an interested underwriter, and he decides to sell 10% of his new company. So out comes his IPO with a stated price of 16. The market opens and the stock jumps to 80. Presto, the CEO is a billionaire, because he owns maybe 60% of the stock. And who's buying the 10% of this new, money-losing net company? My bet is that most of the buyers at least initially are the hedge funds and day-traders on the net who are playing the "in-and-out" game.

* *

My wife, Faye, is a corporate lawyer. And one thing is sure, she doesn't waste her clients' time. A few months ago she flew to Osaka, Japan -- for one day. Last week she flew to London -- for a day-and-a-half. That's life in the fast lane. Faye also told me that last time she checked (about a month ago) there were 40 net stocks, according to SEC filings, that were waiting to bring out IPOs.

* *

It used to be said that the worst thing that could happen to a president is "to be caught in bed with a dead girl or a live boy." But ignorant me, I always thought that impeachment was even worse. Not so, according to our President, a man who knows no shame.

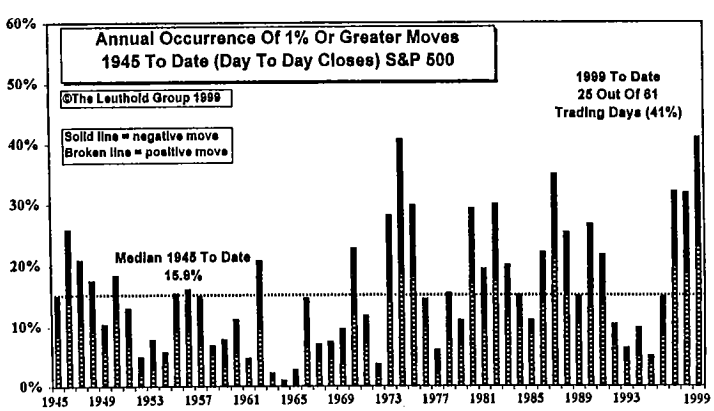
Clinton: No 'Badge of Shame'

WASHINGTON — President Bill Clinton said he did not regard his impeachment as something to be ashamed of, saying that it was unwarranted.

"I do not regard this impeachment vote as some great badge of shame," he told Dan Rather of CBS News on Wednesday. "I do not. Because I do not believe it was warranted, and I don't think it was right. I just don't have bad feelings about it, but neither do I have feelings of anger and bitterness against those who did what they did, whether they believed it or whether it was political or whatever; I just think it's past us and we need to put it behind us, and we need to go on."

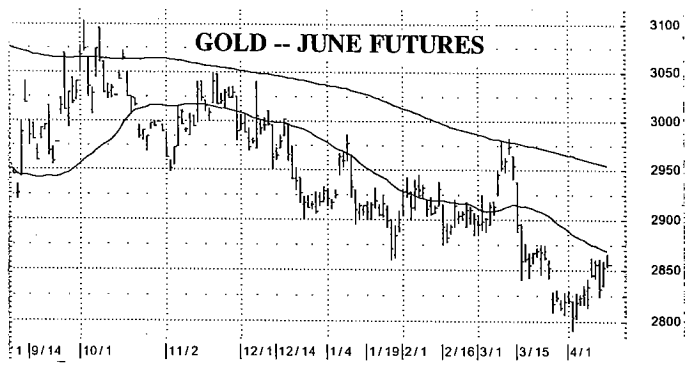
* *

Here's another chart from the Leuthold Group. It shows the number of days that the S&P moved 1% of more. The last time we had this many 1% movers was in 1974 when the market was collapsing. Of course, 1987 was no slouch, as you can see on the chart -- remember 1987?



GOLD: Considering that gold topped out in 1980, 19 years ago, it's amazing the number of subscribers I have who are still fascinated with gold. I think I receive more letters and communications about gold than any other subject (are these all subscribers who lived through the wonder gold years of 1977-'80)?

I've stated that I believe gold made an important bottom at its April 5 extreme low (June futures) at 279.10. The chart shows gold pushing just up to its 34-day moving average of 286. At 288, on the June futures, gold would look much improved, and then we come to 290. But a major hurdle comes in at 293, the level of the 144-day moving average. So far, it's been a very labored rise for gold, and every dollar up seems to be corrected by a 50 cent decline. Ah well, hope springs eternal in the heart of a gold-phile. But hey, the yellow metal is looking bet-tah.



Item: The **Goldman Sachs** IPO is slated for early May. Goldman called off this IPO earlier because of market conditions. The last thing Goldman would want would be a second cancellation. This has brought up rumors of Goldman manipulating the market to keep it steady for the big IPO. This wouldn't be difficult to do in a market that is not subject (as now) to any big selling pressure -- just buy S&P futures any time on any market dips. Do I believe the Goldman is trying to "stabilize" the market? Nothing would surprise me in this business.

Charts: The charts never lie. It's the chart-readers who mis-read the charts and then draw faulty conclusions. I'll try to do better.

This is a chart of the Nasdaq 100, the driving force under the Nasdaq composite and one of the "hottest" of the averages this year. This is a daily chart with the 34-day moving average shown. It appears to me that the upward momentum has run out for the 100. It also seems to me, based on rising breadth on the NYSE last week, that money has been moving out of the Nasdaq 100 and going into the secondary stocks. Of course, many of the big movers in the Nasdaq 100 correspond to the big movers in the S&P 500 -- all big-cap stocks. Last week we saw the unusual spectacle of the S&P declining while the A-D ratio for the NYSE advanced.